IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
VICTORIA DIVISION

IN RE:	§	
	§	**CASE NO. 10-60149**
LACK'S STORES, INCORPORATED, *ET AL.*,[1]	§	
	§	**(Chapter 11)**
	§	**Jointly Administered**
DEBTORS.	§	

DEBTORS' STATUS REPORT FOR JANUARY 26, 2011 OMNIBUS HEARING

Lack's Stores, Incorporated and its affiliated debtors (collectively, the "Debtors") hereby file this *Status Report for January 26, 2011 Omnibus Hearing* in order to keep the Court and parties in interest apprised of the Debtors' orderly liquidation efforts, non-retail sale efforts, and other key matters relating to the administration and resolution of these chapter 11 cases (the "Cases").

BACKGROUND AND PROCEDURAL HISTORY

1. Lack's Stores, Incorporated ("Lack's") is a Texas corporation with its headquarters located in Victoria, Texas. On November 16, 2010 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief with this Court under chapter 11 of the Bankruptcy Code. As of the Petition Date, Lack's was one of the largest independently-owned retail furniture chains in the United States, operating thirty-six retail home furnishing stores in twenty-six Texas cities.[2]

2. Since the Petition Date, the Debtors have continued to operate and manage their businesses as debtors in possession pursuant to Bankruptcy Code §§ 1107(a) and 1108.

[1] The Debtors and the last four digits of their tax identification numbers are Lack's Stores, Incorporated (6528), Merchandise Acceptance Corporation (0972), Lack's Furniture Centers, Inc. (9468), and Lack Properties, Inc. (8961).

[2] At the Petition Date, Lack's retail stores were located in Abilene, Alice, Austin (3), Bay City, Beeville, Clute, College Station, Corpus Christi (2), Del Rio, El Campo, Killeen, Longview, Lubbock (2), Lufkin, Midland, New Braunfels, Odessa, Port Lavaca, Portland, San Angelo, San Antonio (5), Sinton, Temple, Tyler, Uvalde, Victoria (2), and Waco.

3. On November 30, 2010, the Office of the U.S. Trustee (the "U.S. Trustee") appointed an official committee of unsecured creditors (the "Committee") in these Cases [Dkt. No. 96].

4. The initial meeting between the Debtors and the Office of the United States Trustee (the "U.S. Trustee") occurred on December 2, 2010, and the Section 341 Meeting of Creditors was held January 14, 2011 in Victoria, Texas.

5. The general claims bar date has been set as February 18, 2011 for non-governmental entities and May 15, 2011 for governmental entities. The Debtors (working with the Committee) will be filing a motion to seek a separate bar date and procedure for the filing of administrative expense claims pursuant to 11 U.S.C. § 503(b)(9).

6. The Debtors' Schedules of Assets and Liabilities and Statements of Financial Affairs were timely filed with the Court on December 31, 2010.

7. All pleadings and other documents filed with the Court may be accessed free of charge at the website maintained by the Debtors' claims and noticing agent, Kurtzman Carson Consultants LLC, at www.kccllc.net/lacks.

STATUS REPORT

(i) *Store Closing Sales*

8. As authorized by the Court [Dkt. No. 184], Lack's, with the assistance of Hilco Merchant Resources, LLC, conducted Store Closing Sales. The Store Closing Sales lasted approximately eight (8) weeks and concluded ahead of the original schedule on or about January 16, 2011 with the closing of all remaining retail locations. The receipts and gross margins on these sales were significantly ahead of the forecasts initially filed with the Court on November 11, 2010 [Dkt. No. 11], and as supplemented on December 15, 2010 [Dkt. No. 185]. As reflected in **Exhibit A** to this Status Report, cash and credit card sales during the Store Closing

Sales totaled approximately $34,553,000, greatly exceeding projected receipts by approximately $12,122,000. Cumulative gross margin on such sales was approximately 28%. The Store Closing Sales were completed in a timeframe that was consistent with, and indeed ahead of, the Debtors' original projections.

(ii) ***Collection of Customer Notes Receivable***

9. Lack's has continued its regular collection of its portfolio of customer notes receivable in the ordinary course of business. Collections for the ten (10) week period ended on January 21, 2011 totaled approximately $19,465,000, placing them approximately $4,937,000 ahead of projections made at the outset of these Cases.

10. As the Debtors have previously advised the Court, many of their customers historically made their regular payments in person at the Debtors' various store locations. Given that the Debtors have closed their store locations, the Debtors have made arrangements for certain HEB and Wal-Mart locations to accept "in store" payments on customer notes receivable as the Debtors' agent. Collections from HEB and Wal-Mart locations continue to improve and made significant gains during the month of January 2011, as more customers became aware of this payment option.

11. In addition, the Debtors continue to be proactive in educating customers on other alternative payment arrangements, such as by direct mail, online payments, and automatic drafts, including sending periodic letters to customers educating them on their various payment options. The Debtors are optimistic that these efforts will enable the level of collections on customer notes receivable to remain well within or above projections.

(iii) ***Operating Disbursements***

12. For the ten (10) week period ended January 21, 2011, actual operating disbursements equaled approximately $21,392,000, as compared with projected operating

disbursements of $21,034,000. The disbursement variance of $358,000 results primarily from excess sales tax payments that were $222,000 higher than forecast due to higher sales, and certain unforecasted rug purchases of approximately $836,000 which were sold at a positive gross margin during the Store Closing Sales.

(iv) ***Estimated Cash Position***

13. As of January 21, 2011, the Debtors' closing cash position was approximately $17,061,000, ($13,282,000 ahead of the projected 10 week cumulative cash position). This book cash position is a consequence primarily of higher than projected merchandise sales and notes receivable collections and lower than projected operating disbursements.

(v) ***Marketing and Sale of Real Estate Interests***

14. Lack Properties, Inc. ("Lack Properties"), a wholly-owned subsidiary of Lack's, is the owner of the real property and improvements associated with approximately fourteen store and warehouse locations that are leased to Lack's. The remaining store locations are or were leased by Lack's from third party landlords, including locations that are leased from landlords that are affiliated with various members of the Lack family.

15. The Debtors have hired DJM Realty Services, LLC ("DJM") to act as their real estate consultant and advisor [Dkt. No. 215]. The Court has approved bid procedures with respect to the Debtors' leased and owned real property interests [Dkt. Nos. 364 (the "Sale Procedures (Leased Real Property)" and 365 (the 'Sale Procedures (Owned Real Property)," respectively].

(a) Real Property Leased

16. As part of the sale process, DJM has evaluated the leased properties to determine which locations should be assumed and sold/assigned to third parties and which should be rejected as burdensome. As reflected in **Exhibit B** to this Status Report, the Debtors have filed

sale and assumption notices covering four (4) locations leased from third party landlords, have served eighteen (18) notices of rejection (each effective on or prior to January 31, 2011), and remain in possession of five (5) locations.[3] At the January 26, 2011 omnibus hearing, the Court will consider the Debtors' requests to sell and assign four (4) leases pursuant to the Sale Procedures (Leased Real Property). At the Debtors' request, the Court has also scheduled time on January 31, 2011 to consider additional requests, if any, for the sale and assignment of the Debtors' remaining real property leases.

(b) Owned Real Property

17. DJM has been in contact with numerous potential purchasers with respect to the sale of owned real property, and has negotiated (or is in the process of negotiating) proposed sales of multiple locations. To this end, the Debtors have obtained signed sales contracts on four (4) properties. These signed contracts are in the due diligence stage. The Debtors and DJM are also in discussions with potential purchasers relating to several other properties. The Debtors anticipate presenting a number of these sales to the Court prior to the end of February 2011.

(vi) *Sales of Personal Property*

18. The Debtors interviewed a number of potential auctioneers to assist with the sales of personal property (non-inventory). As a result of these interviews, the Debtors have filed amended motions seeking authority to employ Taylor & Martin, Inc. ("T&M") to serve as auctioneers [Dkt. No. 471] and to sell certain personal property free and clear of liens, claims, encumbrances, and other interests [Dkt. No. 470]. The proposed sale applies to, among other assets, vehicles, trailers, office equipment, and other miscellaneous assets that do not otherwise fall under the ambit of previously submitted sale procedures. As part of the sale motion, Debtors

[3] Of the five (5) remaining locations, the Debtors are in on-going negotiations with respect to four locations and continue to occupy their corporate headquarters in Victoria, Texas. The Debtors are in the process of negotiating a lease of the corporate headquarters covering a smaller amount of space for a reduced rental charge.

have requested authority to conduct an auction of approximately 155 vehicles at the Debtors' facility in Schertz, Texas, on or about February 17, 2011. In addition, to the extent that T&M determines that any other personal property is "auction-worthy," such property will be sold at the Schertz auction, a separate in-person auction, or an online auction. The Debtors propose to abandon any property that is found to be burdensome to the estates.

(vii) ***Senior Lenders***

19. The Debtors and their professionals have continued to work on a regular basis with the Agent's professionals with respect to their many requests for financial and operational information and access to the Debtors' representatives. The Debtors have hosted various representatives of Capstone Advisory Group LLC ("Capstone"), the Agent's financial advisor, in the Debtors' offices in Victoria, including most recently for a number of days during the week of January 24, 2011.[4]

20. Since the Petition Date, the Debtors have made pay-downs to the Senior Lenders totaling $15,576,787 consisting of (a) weekly loan pay-downs in the amount of $500,000 per week (or $4,500,000 in the aggregate to date) and (b) additional pay-downs in the amount of $5,000,000 each on December 16, 2010 and January 14, 2011. The Debtors have also made interest payments for the months of December and January in the aggregate amount of $1,076,787. Attached hereto as **Exhibit "C"** is a chart detailing these payments.

(viii) ***Committee***

21. As set forth above, the Committee was appointed on November 30, 2010. The Committee held its formation meeting on December 2, 2010 and at that time selected Platzer, Swergold, Karlin, Levine, Goldberg & Jaslow, LLP as its counsel. Shortly thereafter the

[4] The Debtor reserves all rights respectively, and has repeatedly notified the Agent regarding the apparent high level of expenses being incurred by the significantly over-secured Senior Lenders.

Committee selected Conway MacKenzie, as its financial advisors. The parties' respective professionals continue to be in frequent contact regarding the various issues in these Cases.

CONCLUSION

22. The Debtors have continued to operate their businesses and to administer these Cases consistent with the undertakings made to the Court at the inception of these Cases. The Debtors intend to continue to work with the Senior Lenders, the Committee, and all other constituents to achieve the goal of successful chapter 11 cases.

Dated: January 25, 2011

Respectfully submitted,

VINSON & ELKINS LLP

By: /s/ *Paul E. Heath*

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